

As Continental European countries are the principal holders of gold, and are our major creditors, it is easy to understand why they are extremely concerned about the availability and price of gold, and our continued ability to pay our external debts in a currency they will accept.

As a result, we have, to a considerable degree, lost our freedom of action, and are subject to the wishes of our creditors, from the elimination of the gold reserve requirements to control of private investments. For fear of retaliation, there is very little that we are likely to do that our creditors oppose, because essentially their willingness to hold dollars (to lend us resources) finances much of the foreign exchange costs of our military deployment abroad.

THE ABILITY OF THE PRIVATE SECTOR TO MEET THE GOVERNMENT'S NEEDS

The President's balance of payments program, announced on January 1, 1968, proposes an improvement of \$3 billion a year divided as follows:

	<i>Millions</i>
Direct investment	\$1. 000
Bank and nonbank credit.....	. 500
Exports	. 500
Tourism	. 500
Government expenditures	. 500
Total	3. 000

It is significant that the private sector is expected to yield five-sixths of the saving, and government expenditures, one-sixth. Can this be achieved?

I would dearly like to be able to say unequivocally that, yes, this is the medicine the patient needs. Having urged upon the Congress and the Administration, ever since 1960, that unless we got control of our balance of payments deficits this country would lose its power of initiative and freedom of choice, at long last the matter has been given top priority and specific measures have been proposed. Again, instead of passing moral judgments or advancing superficial economic preconceptions, it would be more useful to the Committee if I gave an objective assessment.

Direct Private Investment.—We have studied the opportunities of savings in this area. In Schedule B and C countries, there are, between outflows and earnings that may be repatriated, more than enough resources to save \$1 billion in 1968. In fact, a strict application of the mandatory regulations to direct investors might save as much as \$1.5 billion, plus whatever must be brought back in liquid assets. There is, therefore, room for leniency and relaxation in the enforcement of the regulations. (Tables 3 and 4.)